

A New Focus on Corporate Culture: How to Assess Culture and Why

December 3, 2019



CPE credits

This program qualifies for 1.5 CPE credits.
Field of study: Behavioral Ethics

NACD skill-specific credit

This session offers 1.0 NACD skill-specific credit.
Contact the NACD if you have any questions.
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Goal of today's program

Gain insights into:

- The importance of **assessing** culture
- How organizations can **implement** a culture assessment program
- Practical steps that can **enhance** corporate culture

Panelists

Joe Dettmann, Ph.D. | Principal, People Advisory Services | EY

Melody Jones | Founder, 32-80 Advisors | Independent Board Director

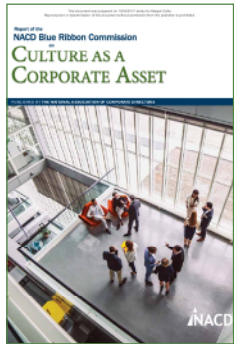
Stacey Schabel | Vice President & Chief Audit Executive | Jackson Holdings, LLC

Caroline Sullivan | Senior Vice President & Corporate Controller | Moody's Corporation

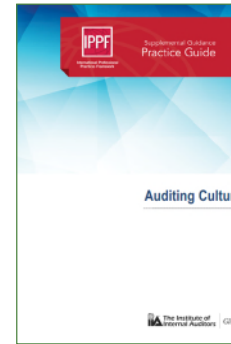
Moderator

Julie Bell Lindsay | Executive Director | Center for Audit Quality

Resources on corporate culture



NACD Blue Ribbon Commission
Report (2017)
Culture as a Corporate Asset



The Institute of Internal Auditors
(IIA) Practice Guide (2019)
Auditing Culture



Coming in Q1 2020...
Anti-Fraud Collaboration Report
***How to Assess Corporate
Culture and Why***

Define your organization's culture



*“Culture is the **mindset and instincts** of an organization’s people” – Louis V. Gerstner*

Why is culture important?

“52% of any company’s value now being from intangible assets, including culture” –
[The 2018 EPIC Report](#)

Risk

- Identifying and mitigating potential **threat**
- Protecting **trust** and **reputation**
- Increasing **stakeholder confidence**
- Reducing the cost of monitoring the **compliance** and **control environment**



Reward

- Encouraging a **speak up culture**
- Setting **clear expectations**
- Attracting and retaining the **best talent**
- **Defining and reinforcing behaviors** that stay in step with strategy and objectives
- Driving **efficiencies** and reducing **costs**

Source: [EY, The Power of Culture: Risk Reduction or Value Creation, 2016.](#)



Cultural assessment can create valuable insight and benefits to support risk management within the three lines of defense

Cultural insight in the 1st line

Identifies where **unwanted risk may reside** and where cultural stress may signal poor risk management behaviors

Highlights **behavioral blind-spots** and *'how things really get done around here'*

Provides **early warning signs** of code of conduct breaches, handling of information, information hoarding, cyber threat and information security

Risk managed by controls

Cultural insight in the 2nd line

Supports the design of **effective controls** based on real-life behaviors seen in the current culture

Informs effective prioritization of **monitoring activities** and areas needing targeted support

Improves whistleblowing effectiveness by addressing cultural dynamics that inhibit speaking up

Risk managed by functions
(risk management, quality, compliance)

Cultural insight in the 3rd line

Enables **enhanced audit scoping** and planning

Supports better questions and evidence gathering for **improved audit quality**

Establishes root cause for non-compliant behaviors due to cultural gaps

Identifies where **policies and procedures** are ineffective or ignored

Risk managed by internal and external audit

Six foundational principles about shaping corporate culture

1

Culture is a key enabler of your **purpose and strategy**

2

Behavioral risk, ethical issues and regulatory requirements have elevated the seriousness with which culture is being treated

3

Board and executives play a key role in owning, directing and monitoring culture

4

Every organization has a **culture DNA** and wins through the right behaviors

5

Culture can be reliably **measured** so as to intentionally evolve over time

6

Evolving culture is about changing a few **everyday behaviors** and reinforcing the changes through shifts to company operating model and operating environment

Who owns culture?



**BOARD
MEMBERS**



**FINANCIAL
MANAGEMENT**



**INTERNAL
AUDITORS**



**HUMAN
RESOURCES**



**C-SUITE
EXECS, OGC,
COMPLIANCE**

How leaders evaluate their company's corporate culture today



Source: [*PwC, 2019 Annual Corporate Directors Survey, October 2019.*](#)

Use a holistic approach to assess culture



What a good culture assessment should do

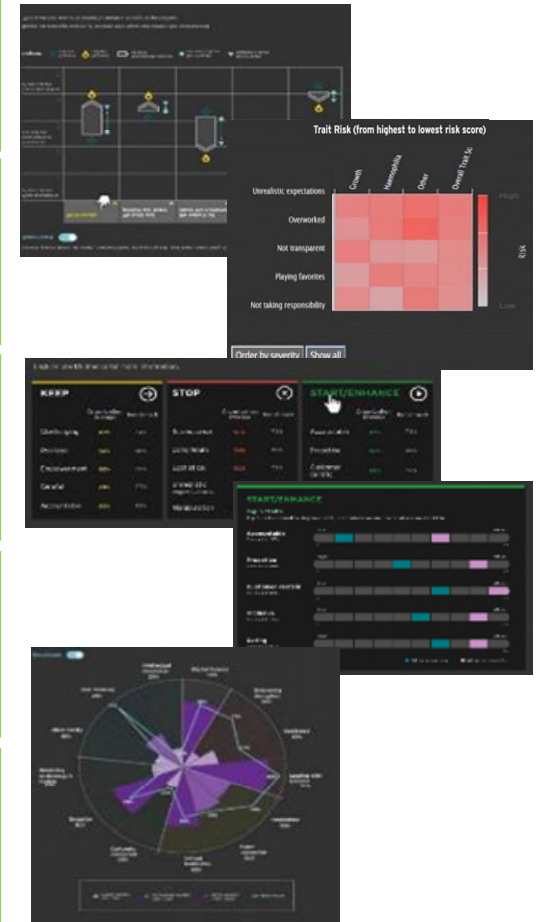
1 Assess leadership **alignment**

2 Identify **traits** to keep, stop, start and behavioral risks

3 Quantify the size and **business impact** of culture shift

4 Establish how to **motivate** people and what leaders can do to create a **movement**

5 Prioritize **operating model/environment** levers and **influencers** to start the shift



© EY

How to execute a culture assessment

Incorporate culture into your audit plan:

- Identify **formal and informal** culture elements
- Evaluate culture **as part of** the internal audit process
- Assess the **experience** of the audit against the company's culture and code of conduct
- Internal audit activity may **advise on culture** and conduct –

Reference: *The IIA, Practice Guide on Auditing Culture, 2019*

Audits of culture topics

Examples:

- Whistleblowing
- Remuneration
- Governance
- Incident management
- Complaint handling

Who should be involved?

Assign roles and responsibilities:

- **Full board** oversight
- Leadership and executive **management team**
- **Cross-functional** partnerships (HR, Legal, Compliance, Audit)
- Interdisciplinary **culture committee**
- **Internal network** of champions and influencers

Shifting corporate culture has to be behavior-focused, and happen at three levels

1

Level 1: me

- Engage me in the **future design**
- Clearly show me the **FROM here-TO there behaviors**
- **Motivate** me the right way
- Have the right people **connect to me**



2

Level 2: my immediate experience

- My **boss** (manager effectiveness)
- Who I work with (teaming)
- Who I serve (customer/patient experience)
- What I **do everyday** (job design)
- How you **reward/incent** me (total rewards, incentives)
- My **tools and technology** (tool and technology enablement)
- What I learn/how I grow (learning and career architecture)
- Where I work (physical space and mobility)



3

Level 3: my system experience

- How we handle information (data, technology infrastructure)
- How we're **organized** (operating model/design)
- **Tone at top** (enterprise leadership effectiveness)
- What we're about (purpose and values)
- What we're trying to achieve (strategy)
- How we do work (business processes)
- How we **make decisions** (governance)
- Our **tolerance for risk** (risk management)



Actionable steps to enhance corporate culture

1. Be clear on **why you're focused on culture** – risk, strategy, integration, etc.
2. Conduct a proper **baseline assessment**
3. Identify what culture attributes to **KEEP, STOP, and START**

4. Set the **culture design**, including targeted gaps to close
5. Establish an **influencer network**
6. Drive a process that is **top-down, bottom-up** (through the influencer network), and targeted to the **middle**

7. Shift the **controls** and reinforcing mechanism
8. Drive targeted behavioral change sprints in **local teams**
9. **Be persistent** and consistent
10. Get the metrics right and **measure progress**

Key takeaways

- Culture is as **assessable and measurable** as other board topics
- Measure the **right metrics**
- **Embed and align** culture assessments with existing audits
- Culture change can be done through **deliberate method and behavioral science** practice

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Please note that you will not be able to respond to the attendance checks in the archive, and you must fulfill the attendance requirements during the actual presentation to receive your CPE certificate.

Additional resources

Anti-Fraud Collaboration: Corporate Culture

- Self-Study CPE - [Oversight of Corporate Culture: A Core Asset in Driving Performance and Deterring Fraud](#)
- Self-Study CPE - [Effective Whistleblower Programs: How to Improve Your Whistleblower Program and Address Impediments to Reporting](#)
- Self-Study CPE - [Ethical Corporate Cultures: Your Role in Sustaining a Culture that Deters Fraud](#)
- Self-Study CPE - [How Corporate Culture Can Breed Fraud if Left Unchecked](#)
- Publication - [More than Just Setting the Tone: A Look at Organizational Culture](#)
- Publication - [The Fraud-Resistant Organization: Tools, Traits, and Techniques to Deter and Detect Financial Reporting Fraud](#)



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